WEALTH MARKETS AND COMMERCE

Finance - Economics

GARET GARRETT, Editor

WALL STREET OFFICE: Mills Building, 15 Broad St. Telephone: Hanover 6514

Monday, November 27, 1916

It is absurd that there should be two kinds of wages. Nevertheless, it is a fact. When we speak of money wages we mean the number of dollars the laborer receives in his pay envelope. When we speak of real wages we mean the amount of goods those dollars will buy. If the number of dollars in the pay envelope remains the same and the price of everything that the dollar buys has increased, then we say that money wages are stationary and real wages have fallen, because the same number of dollars will buy less goods than before.

For real wages to remain stationary it is necessary for money wages to rise in the same ratio as prices. This almost never happens, for reasons which are very simple when you have thought of them. Commodities are extremely sensitive to supply and demand. Their prices are continually changing, weekly, daily, hourly, even in some examples from minute to minute. They rise and fall. Money wages are obviously much less variable. They are governed by custom and habit, and wage bargains between employer and employe are at the shortest from week to week and go from that to the term of a year. The wages of large bodies of organized labor, such as mine workers, railroad trainmen, printers, textile mill workers, carpenters, steel workers, masons, etc., are subject to formal agreements which cannot be changed except by negotiation and compromise, sometimes amicable and sometimes not. The employer in such instances would say, very rightly, that if wages were continually fluctuating, as commodities are, it would be impossible to make contracts to perform work, except from day to day, because the capitalist or the contractor could not definitely calculate his costs. That is obviously true, as business goes, but the fact remains that real wages are continually fluctuating, as the commodities for which dollars are exchanged go up and down. That is to say, the purchasing power of money wages is variable. It ought not to be so. An economic burden seems in that case to have fallen in the wrong place.

Every great rise in commodity prices has two phases, one succeeding the other. The rise in prices, to begin with, is owing to an unusual demand for the products of labor, and as this continues labor becomes fully employed. The waste of unemployment is eliminated. Every one has something to do, and although money wages at first do not rise the wage disbursement to labor in the mass is greater. Therefore, the decline in the purchasing power of a dollar, owing to the rise in prices, is more than compensated by the increased buying power of labor as a whole. This is the first phase, during which it may be proved that in spite of the rise in prices people are more prosperous, seeing that the consumption of goods is greater than before. That, as we have said, may be owing wholly to the fact that all labor is now hired, where before there was unemployment. Now, we come to the second phase. As prices go on rising the purchasing power of the dollar continues to fall, and this shrinkage in what a dollar will buy presently offsets the fact that more people are earning dollars. At that point the decline in real wages begins to be felt. The purchasing power of labor in a mass is lessened. It then becomes necessary to increase money wages in order to restore real wages. If money wages are not raised and the decline in real wages is allowed to continue, distress will ensue. It is very unintelligent not to keep real wages up, for if people are able to buy less the demand for goods is checked, simply because those who consume them cannot buy them, and prosperity at length fails. There is what is erroneously called over-production, but which ought really to be called under-consumption.

Although the terms are very seldom used, nearly the whole of the chronic feud between capital and labor is over the disparities that occur between money wages and real wages. A rise in prices, money wages remaining stationary, is a hardship upon labor, because its buying power is reduced. A fall in prices, money wages remaining stationary, is a hardship upon capital, because its profits are reduced and sometimes extinguished. The capitalist knows that a rise in prices is very likely to be followed by a fall; therefore he is reluctant to increase the wage scale. It is easier to raise it than to lower it again. The laborer knows only that when prices rise his dollars buy less than before, and he justly demands more dollars, in order that his real wages, which are measured in goods, shall remain unimpaired. In a very intelligent world prices would not be allowed to go up and down in this wild, eccentric manner. In a world not intelligent enough to solve that problem and yet a little more intelligent than this world really is, there would be only one kind of wages, namely, real wages. The dollars in the pay envelope would be increased or decreased according as prices went up or down, so that the laborer's command over goods should remain constant. A banking institution in Wall Street has attempted something of this sort. Its statisticians have determined that the cost of living has increased about 31 per cent, wherefore, 31 per cent has been added to the money wage of the employes, and by that means their real wage is restored to what it was before the rise in the price of things for which money is spent.

Statisticians have a method of showing facts and events in profile, so that they may be visualized. First, on the left, in a vertical position they establish "ordinates," or the degrees of variation. Then there is a base line, on which divisions of time are marked. Beginning at some point, or degree, on the vertical line at the left a line is drawn to represent anything you like—the price of wheat, the death rate, the percapita consumption of beer, or wages. That line is called "the curve." It goes up and down, as the changes are. You will see it in the accompanying diagram, which shows you the curve of real wages, money wages, prices and unemployment, from 1850 to 1910 in England. You can trace by these curves the disparities we are talking of—how sometimes prices have risen faster than money wages, so that real wages have fallen, and how at other times prices have fallen faster than money wages, so that real wages have risen. You will notice also a very important fact, namely, this, that although prices go both up and down in erratic fashion real wages tend pretty steadily to rise. They go down very little at any time, and go always more up than down over a long series of years. If you were to plot a curve of real wages for a century it would be more striking still. The curves shown in the diagram represent the fluctuations in English prices and wages. American statistics are very imperfect. But the curves of American prices and wages would exhibit in the main the same features of profile, and the law is the same in both cases. Since the beginning of the modern mechanical era, starting, let us say, with the nineteenth century, real wages have been tending remarkably to rise. We reproduce the following table from Palgrave's Dictionary of Political Economy, showing in contrast the fluctuations of English wages and prices for more than a century past, which, as we have said, would synchronize with the fluctuations in American wages and prices.

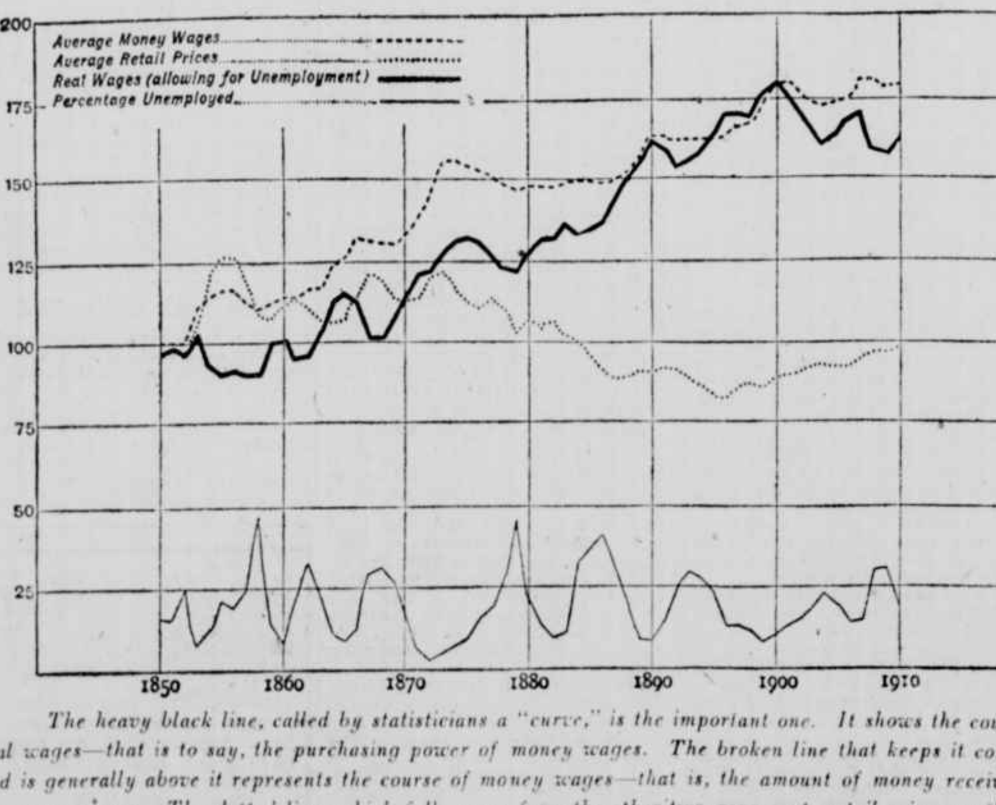
Periods.	Money Wages.	Prices.	Real Wages.
1790-1810	Rising fast	Rising very fast	Falling slowly
1810-1830	Falling	Falling fast	Rising slowly
1830-1852	Nearly stationary	Falling slowly	Rising slowly
1852-1870	Rising fast	Rising	Rising
1870-1873	Rising very fast	Rising fast	Rising fast
1873-1879	Falling fast	Falling fast	Nearly stationary
1879-1887	Nearly stationary	Falling	Rising
1887-1892	Rising	Rising and falling	Rising
1892-1897	Nearly stationary	Falling	Rising
1897-1900	Rising fast	Rising	Rising
1900-1904	Falling a little	Falling and rising	Rising

What happens is clear enough. When prices rise, money wages tend to rise at a slower rate. When prices fall, money wages tend to fall at a slower rate. Real wages, therefore, tend pretty steadily to rise. Only once, according to this table, through all the rise and fall of money wages, did real wages fall, and that was in the period of 1790 to 1810, when both prices and money wages rose, but when prices rose so much faster than money wages that real wages actually fell. This was the period of the Napoleonic wars. The same thing is happening again. Money wages are rising fast, but prices are rising faster still, and real wages are tending to fall. The reason money wages tend to fall less than prices, in a period of falling prices, is the same reason for which they tend to rise less than prices in a period of rising prices. We have discussed it already. Wages are less flexible than commodity prices. They are harder to change, and for psychological reasons which may be added, it is harder to reduce than to increase them. People clamor to get their wages raised. They protest against having them reduced in any way.

In its deferred social consequences the most momentous thing now happening in the world is the rise in money wages. It is occurring in all countries, differing only in degree, and the causes are everywhere the same, namely, one, a sudden and imperative demand for the products of labor, and, two, a relative decrease in the amount of labor available, owing to the manner in which war drains men off from industry and agriculture. The rise is not confined to organized labor. Corporations have voluntarily increased the money wages of their unorganized employes. This has been done in no altruistic spirit. It is necessary in the first place to hold one's labor against the competition of other employers willing to pay higher wages, and it has been recognized, in the second place, that the efficiency of labor is adversely affected by a decline in its purchasing power. Last week the United States Steel Corporation announced an increase of 10 per cent in money wages. That was the third this year, making 30 per cent in all, and it will be interesting to note that this is the equivalent of nearly 15 per cent on the common stock of that great industrial organization. In all economic experience there is nothing to match the rise now taking place in the money wage since the Napoleonic war era. Will the sequel be the same?

After the close of the Napoleonic wars money wages and prices fell, as is bound to happen after every period of war inflation, but real wages actually rose because prices declined faster than money wages. After that came many vicissitudes, periods of inflation and periods of depression, prices and money wages going up and down, but always the real wage was tending to rise, so that in the nineteenth century the purchasing power of the average wage earner in Great Britain practically doubled. That has been the experience also of wage earners everywhere, or in all countries comparable to Great Britain in terms of efficiency and governed by the same quality of economic thought. After the close of the current period we shall have a fall in both money wages and prices, but, if experience holds, money wages will fall relatively little. When prices fall faster than money wages, as invariably they tend to do, the profits of capital are reduced. That is the incentive to greater efficiency of production. And it is because capital finds the means to produce goods more cheaply, in order to pay higher money wage and still make a profit, that it is possible for real wages to rise. So, perhaps in awkward consequence of the abnormal things that are now taking place, the command of the wage earner over the goods of the earth will be doubled again in the twentieth century.

MONEY WAGES, REAL WAGES, RETAIL PRICES, AND UNEMPLOYMENT (G. H. WOOD).



The heavy black line, called by statisticians a "curve," is the important one. It shows the course of real wages—that is to say, the purchasing power of money wages. The broken line that keeps it company and is generally above it represents the course of money wages—that is, the amount of money received by the wage earner. The dotted line, which falls away from the other two, represents retail prices, or the cost of goods for which wages are spent. The thin line in the bottom represents the fluctuations in the number of unemployed. All of this applies to English labor. We have no such statistics for American labor. But the tendencies have been mainly the same in this country as in Great Britain.

Reflexes of War

The British Minister of Munitions has issued under the defence of the realm act of 1914 an official order which forbids any person or corporation to manufacture motor vehicles without a special permit issued under the authority of the Admiralty, the Army Council or the Munitions Board. The only exception where a British concern is permitted to engage in such activity is on work required to complete contracts placed by the Admiralty, the War Office, the Minister of Munitions or an Allied government on or before November 15, the date on which the order became effective.

Lord Shaughnessy, president of the Canadian Pacific Railway, on arriving in London a few days ago, said that Canada has a great amount of surplus farm lands to offer after the war to returned soldiers who may want to settle down. He called attention to the fact that the Canadian Pacific Railway has formulated a scheme for the preparation of farms in Canada of a size suited to the localities in which they are situated, to be equipped with buildings and fences and to be offered to ex-soldiers who may wish to acquire them on a twenty years' purchase system.

Great Britain is preparing a new issue of £1 currency notes. The new paper money will be the same size as the existing notes, but will differ considerably in design and particularly in type. The original £1 notes had to be prepared in a hurry and have not been regarded as very safe owing to the danger of counterfeiting. The new issue has already been approved and is expected to be ready to be put in circulation early in 1917.

Quoting from the "Frankfurter Zeitung," "The London Times" says German employers are getting tired of the obligations which they accepted when their employes set out for a short war and are now making organized efforts to free themselves. The German paper, in a vigorous protest against this movement, publishes a letter in which a Rhenish firm, observing that it is adopting a practice approved by many large industrial associations and now becoming general, informs its employes in the trenches that their allowances will cease unless they sign an agreement binding them for three years after the war. The men are to regard the allowances as loans and to pay 5 per cent interest on them, and they must repay the "loans" if they leave the service of the firm within three years after the conclusion of peace. The circular says: "In consequence of the long duration of the war, the enormous taxation of profits which is to be expected, and the impossibility of foreseeing the state of business after the conclusion of peace, we are compelled to protect our interests. Our interests make it necessary for us to clear up the situation and to take measures of precaution."

An order issued by the British Minister of Munitions brings under governmental control the manufacture of copper wire in England. The order prohibits the manufacture of any wire or cable containing copper without special permit.

On the theory that even one's worst enemies should have their merits recognized, the "Echo des Mines et de la Metallurgie," Paris, credits the Central Powers with rapidly organizing the underground work in Serbia. Under the general military government of Austria was created a section of mines, which has been prospecting the mountains of Serbia. A laboratory was established at Belgrade. In the vicinity of Chabatz the mines of Dorspotok, near Krupanj, property of the Austro-Hungarian railways, are worked for antimony. At Rudnik the military authorities are taking out lead and copper. In the neighborhood of Belgrade the mines of Caveni Breg will soon yield lead, but the most important lead mine worked by the military authorities is that of Babé, whence is derived daily a car of lead and 100 cars of ore which is treated in the works of the interior.

Switzerland is undertaking to regulate its cotton trade by fixing maximum prices on raw cotton, cotton yarn, thread, tissue paper and other cotton goods. A central office will be created in Zurich, which, together with a special commission, will coöperate with the political department. The most important branches of the Swiss textile industry and trade will be represented by the commission. After maximum prices have been fixed and regulations governing the cotton trade promulgated by the political department, it will be the duty of the central office to enforce them and to confiscate goods, when necessary, for infractions.

Three hundred pounds of pure gold have already been obtained from the jewelry and ornaments brought to the Gold Bureau in Munich; the owners received in all about $62,500. It is estimated that with the addition of the necessary silver or copper alloy nearly 12,000 gold 10-mark pieces, of the value of $165,000, can be coined.

The Norwegian government has expropriated large flour mills near Bergen, Norway. The mills are the largest in the Scandinavian countries. They will be under the control of the government as long as the war lasts.

REORGANIZATION
OF
The Chicago, Rock Island and Pacific Railway Company

To Holders of Certificates for Shares of Stock; and Twenty-Year Five Per Cent. Gold Debentures of
THE CHICAGO, ROCK ISLAND AND PACIFIC RAILWAY COMPANY:

Notice is hereby given that a Plan and Agreement for the Reorganization of the above-named Company, dated November 14, 1916, has been prepared by the undersigned Joint Reorganization Committee, and has been approved by the committee for Debentures of the Railway Company acting under the Deposit Agreement dated July 19, 1915, and by the two committees representing stock of the Railway Company, of which Messrs. Nathan L. Amster and Charles Hayden are, respectively, Chairmen.

Copies of said Plan and Agreement of Reorganization may be obtained from Bankers Trust Company, No. 16 Wall Street, New York City, or from First Trust and Savings Bank, Dearborn and Monroe Streets, Chicago, Ill., the Depositaries under the Plan.

Holders of Stock of the Railway Company who desire to participate in the reorganization must deposit the certificates for such Stock, duly assigned in blank, with either of said Depositaries, at the addresses above stated, on or before December 4, 1916.

Holders of Twenty-Year Five Per Cent. Gold Debentures of the Railway Company who desire to participate in the reorganization must deposit their Debentures, with the coupon dated January 15, 1916, and all subsequently maturing coupons, attached, with either of the Depositaries, at the addresses above stated, on or before December 4, 1916.

In respect of every such deposit a Certificate of Deposit will be issued by the Depositary receiving the same. Application will be made to list Certificates of Deposit upon the New York Stock Exchange.

Dated, New York, November 14, 1916.

SEWARD PROSSER, Chairman,
NATHAN L. AMSTER,
EMILE K. BOISOT,
CHARLES HAYDEN,
JAMES SPEYER,
S. DAVIES WARFIELD,
Joint Reorganization Committee.

R. W. JONES, Secretary, 16 Wall Street, New York, N. Y.

To Holders of Certificates for Shares of Stock of
THE CHICAGO, ROCK ISLAND AND PACIFIC RAILWAY COMPANY:

The undersigned Committee has approved and adopted the Plan and Agreement of Reorganization prepared by the Joint Reorganization Committee of which Mr. Seward Prosser is Chairman, dated November 14, 1916, and hereby recommends that holders of certificates for Shares of Stock of the Railway Company assent to said Plan and Agreement by depositing thereunder, and that they make the payments provided in said Plan and Agreement.

Copies of said Plan and Agreement may be obtained from Bankers Trust Company, No. 16 Wall Street, New York City, or from First Trust and Savings Bank, Dearborn and Monroe Streets, Chicago, Ill., the Depositaries under said Plan.

Dated, New York, November 14, 1916.

NATHAN L. AMSTER,
Chairman,
for Amster Stockholders' Committee.

To Holders of Certificates for Shares of Stock of
THE CHICAGO, ROCK ISLAND AND PACIFIC RAILWAY COMPANY:

The undersigned Committee has approved and adopted the Plan and Agreement of Reorganization prepared by the Joint Reorganization Committee of which Mr. Seward Prosser is Chairman, dated November 14, 1916, and hereby recommends that holders of certificates for Shares of Stock of the Railway Company assent to said Plan and Agreement by depositing thereunder, and that they make the payments provided in said Plan and Agreement.

Copies of said Plan and Agreement may be obtained from Bankers Trust Company, No. 16 Wall Street, New York City, or from First Trust and Savings Bank, Dearborn and Monroe Streets, Chicago, Ill., the Depositaries under said Plan.

Dated, New York, November 14, 1916.

CHARLES HAYDEN,
Chairman,
for Hayden Stockholders' Committee.

To Depositors of Stock of METROPOLITAN STREET RAILWAY COMPANY Under Protective Agreement.

The Stockholders' Protective Agreement dated December 19, 1907, is hereby terminated ... [illegible] ... Bankers Trust Company, 16 Wall Street, New York ... [illegible]

JOHN I. WATERBURY, Chairman, of Stockholders' Protective Committee.
New York City, November 20, 1916.

FINANCIAL MEETINGS
NAOLS CORPORATION.

[illegible] ... November 27, 1916.

Trust and Surety Companies

[illegible]

Operating expenses for the average Eastern Nebraska farm, according to surveys made by the farm management department of the State University Agricultural College, ... [illegible]

AN ORDINANCE CALLING IN FOR REDEMPTION BONDS OF THE
CITY OF SAN ANTONIO.

WHEREAS bonds of said city are now outstanding as follows: [illegible]

PASSED AND APPROVED this 30th day of October, A. D. 1916.
CLINTON G. BROWN, Mayor.
ATTEST: [illegible], City Clerk.